

**REPORT OF THE AUDIT OF THE  
FORMER BATH COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
May 26, 2007 Through October 2, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER BATH COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**May 26, 2007 Through October 2, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the former Bath County Sheriff for the period May 26, 2007 through October 2, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$27,891 for the districts for 2007 taxes, retaining commissions of \$1,067 to operate the Sheriff's office. The former Sheriff distributed taxes of \$26,777 to the districts for 2007 taxes. Taxes of \$47 are due to the districts from the former Sheriff.

**Report Comment:**

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Carolyn Belcher, Bath County Judge/Executive

Honorable Randall Armitage, Former Bath County Sheriff

Honorable John Snedegar, Bath County Sheriff

Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the former Bath County Sheriff's Settlement - 2007 Taxes for the period May 26, 2007 through October 2, 2007. This tax settlement is the responsibility of the former Bath County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Bath County Sheriff's taxes charged, credited, and paid for the period May 26, 2007 through October 2, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Carolyn Belcher, Bath County Judge/Executive  
Honorable Randall Armitage, Former Bath County Sheriff  
Honorable John Snedegar, Bath County Sheriff  
Members of the Bath County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

July 22, 2008



BATH COUNTY  
 RANDALL ARMITAGE, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period  
 May 26, 2007 Through October 2, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>
Franchise Taxes	\$ 3,682	\$ 11,655	\$ 12,554
Gross Chargeable to Sheriff	3,682	11,655	12,554
Taxes Collected	3,682	11,655	12,554
Less: Commissions *	156	409	502
Taxes Due	3,526	11,246	12,052
Taxes Paid	3,526	11,199	12,052
Due District		**	
as of Completion of Audit	\$ 0	\$ 47	\$ 0

\* Commissions:

4.25% on	\$	10,653
4% on	\$	14,728
1% on	\$	2,510

\*\* Special Taxing Districts:

Fire District	\$	47
Due District	\$	47

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT

October 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Bath County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENTS  
October 2, 2007  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Bath County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of October 2, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Interest Income

The former Bath County Sheriff earned \$15 as interest income on 2007 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive  
Honorable Randall Armitage, Former Bath County Sheriff  
Honorable John Snedegar, Bath County Sheriff  
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Bath County Sheriff's Settlement - 2007 Taxes for the period May 26, 2007 through October 2, 2007, and have issued our report thereon dated July 22, 2008. The Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bath County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Bath County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Bath County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bath County Sheriff's Settlement - 2007 Taxes for the period May 26, 2007 through October 2, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 22, 2008



COMMENT AND RECOMMENDATION



BATH COUNTY  
RANDALL ARMITAGE, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period May 26, 2007 through October 2, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties. All office staff collected receipts including the bookkeeper. The bookkeeper prepared daily checkouts and posted to the receipts ledger. The bookkeeper prepared bank reconciliations and agreed bank balances to the ledgers. The former Sheriff's bookkeeper also prepared, posted, and mailed all checks for disbursement. Good internal controls dictate the same employee should not handle, record, and reconcile receipts and disbursements. The former Sheriff should have segregated these duties or implemented additional oversight to strengthen internal controls.

*Former Sheriff's Response: No Response*

